Bangladesh Bank & Controlled Entity: Notes to the Financial Statements Year Ended 30 June 2006

Significant accounting policies

The Bangladesh Bank (the "Bank") is the Central Bank of Bangladesh, established under the Bangladesh Bank Order 1972 and is domiciled in Bangladesh. The Head Office of the Bank is situated in Motijheel Commercial Area, Dhaka. The Bank's activities mainly include the issue of currency, the keeping of reserves and management of the monetary and credit system of Bangladesh with a view to stabilizing domestic monetary value and maintaining a competitive external par value of the Bangladesh Taka towards fostering growth and development of the country's productive resources in the best national interest.

The financial statements include the balance sheet of Issue and Banking Department, Income statement, Cash flow statement, statement of Changes in Equity and notes comprising a summary of significant accounting policies and other explanatory notes. Information on the assets and liabilities of the Issue Department is presented in Note 14 to the financial statements. The consolidated financial statements of the Bank for the year ended 30 June 2006 comprise the Bank and its fully owned subsidiary (together referred to as the "Group ") Security Printing Corporation (Bangladesh) Ltd.

(a) Statement of compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved by the International Accounting Standard Board (IASB).

The consolidated financial statements have been prepared in accordance with IFRS adopted by the IASB, and interpretations issued by the Standing Interpretations Committee of the IASB.

(b) Basis of preparation

The financial statements are presented in Taka, rounded up to the nearest thousand.

The financial statements are prepared on a historical cost basis except the assets and liabilities explained at (d) and (e) below are stated at their fair value: investment held for trading and investments available-for-sale.

The accounting policies have been consistently applied by Group enterprises and are consisted with those used in the previous year.

(c) Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises, which is controlled by another entity known as parent entity. Control exits when the parent entity has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Bangladesh Bank & Controlled Entity: Notes to the Financial Statements Year Ended 30 June 2006

Significant accounting policies -contd.

Security Printing Corporation (Bangladesh) Ltd. is the subsidiary of Bangladesh Bank as the Bank holds 100% of the share capital.

Transactions eliminated on consolidation

Inter-group balances and transactions, and any unrealized gains arising from inter-group transactions are eliminated in preparing the consolidated financial statements. Un-realised gains/losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise. Un-realised gains/losses arising from transactions with associates are eliminated against the investment in the associate, but only to the extent that there is no evidence of impairment.

(d) Foreign currency, Gold & Silver

Foreign currency transactions

Transactions in foreign currencies are translated to Taka at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Taka at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Taka at foreign exchange rates ruling at the dates the values were determined.

Gold

Gold is revalued at market prices. Gains and losses arising from revaluation are recognized in the income statement and transferred to a separate account (Revaluation reserve). Bangladesh Bank lends gold to financial institutions participating in the gold market. Interest on gold loans is accounted for on an accrual basis.

Silver

Silver is revalued at market prices. Gains and losses arising from revaluation are recognized in the income statement and transferred to a separate account (Revaluation reserve).

(e) Financial assets/instruments

(i) Classification

Trading instruments are those that the Bank principally holds for the purpose of short-term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated and effective hedging instrument, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

Bangladesh Bank & Controlled Entity: Notes to the Financial Statements Year Ended 30 June 2006

Significant accounting policies -contd.

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans as well as bonds purchased at original issuance.

Held-to-maturity assets are financial assets with fixed determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain purchased loans and advances to banks and customers and certain debt investments.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity. Available-for-sale instruments include money market placements and certain debt and equity investments.

(ii) Recognition

The Bank recognizes financial assets held for trading and available-for-sale assets on the date the asset is delivered to the Bank. From this date any gains and losses arising from changes in fair value of the assets are recognized.

Held-to-maturity assets and originated loans and receivables are recognized on the day the asset is acquired by the Bank.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs. Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is eliminated discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimated and the discount rate is a market related rate at the balance sheet day for an instrument with similar terms and conditions.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counter parties.

Bangladesh Bank & Controlled Entity: Notes to the Financial Statements Year Ended 30 June 2006

Significant accounting policies -contd.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for- sale assets are recognized directly in equity. When the financial assets are sold, collected or otherwise disposed of the cumulative gain or loss recognized in equity is transferred to the income statement.

Gains and losses arising from a change in the fair value of trading instruments and available for sale assets are recognized in the income statement.

(vi) Specific instruments

Cash and cash equivalents

Cash and cash equivalents comprise notes and coins held by the Group.

Money market placements

Money market placements are classified as available-for-sale assets.

Investments

Investments that the Bank holds for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments are classified as available-for-sale assets.

Loans and advances to commercial banks

Loans and advances originated by the Bank are classified as originated loans and receivables.

Loans and advances are reported net off allowances for un-collectibility to reflect the estimated recoverable amounts.

Bangladesh Government Securities

Bangladesh Government Securities consist of Taka denominated securities issued by the Bangladesh Government and held by the Bangladesh Bank, until the securities are subscribed for, by the commercial banks. These securities earn interest at market-related interest rates, interest earned on these securities are accrued over the term of the security.

Short term borrowing

These are accounted for as other interest bearing borrowings.

Bangladesh Bank & Controlled Entity: Notes to the Financial Statements Year Ended 30 June 2006

Significant accounting policies -contd.

Other liabilities evidenced by paper

Other liabilities evidenced by paper are classified as non-trading liabilities.

(f) De-recognition

A financial asset is de-recognized when the Bank loses control over the contractual rights that comprise the asset. This occurs when the rights are realized, expired or surrendered. A financial liability is de-recognized when it is extinguished.

Available-for-sale assets and assets held for trading that are de-recognized when sold and corresponding receivables from the buyer for the payment are recognized when the asset is delivered to the buyer. The Bank uses the specific identification method to determine the gain or loss on de-recognition.

Held-to-maturity instruments and originated loans and receivables are de-recognized on the day they are repaid in full by the debtor.

(g) Securities borrowing and lending business and repurchase transactions

Repurchase agreements

In course of its financial market operations, the Bangladesh Bank engages in repurchase agreements involving domestic government treasury bills.

Securities sold and contracted for purchase under purchase agreements are reported in the Balance Sheet within the relevant investment portfolio and are valued at market prices.

(h) Off-setting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis.

(i) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Originated loans and advances and held- to- maturity loans

The recoverable amount of originated loans and advances and purchased loans that are classified as held-to-maturity, is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Bangladesh Bank & Controlled Entity: Notes to the Financial Statements Year Ended 30 June 2006

Significant accounting policies -contd.

Loans and advances are presented net off specific and general allowances for un-collectibility. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the income statement. When a loan is known to be uncollectable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the income statement

(j) Transactions & balances with the International Monetary Fund

The Bank transacts with the International Monetary Fund (IMF) in its own right rather than as an agent for the Government of Bangladesh. All transactions by the Bank with the IMF have been included in these financial statements on that basis.

Quota with the IMF is recorded by the Bank as an asset and the amount payable to the IMF for quota is recorded as a liability of the Bank. The cumulative allocation of SDRs by the IMF is treated as a liability. Exchange gains and losses arising on revaluation of IMF assets and liabilities at the exchange rate applying at balance sheet date as published by the IMF are recognized in the Income Statement.
All other charges and interest pertaining to balances with the IMF are recorded immediately in the Income Statement.

(k) Investment in Subsidiary

Investment in the Bank's only subsidiary, Security Printing Corporation (Bangladesh) Ltd. is carried at cost in the Bank's financial statements.

(l) Property, plant and equipment

i) *Owned assets*

Items of property, plant and equipment are stated at cost less accumulated depreciation. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

The Bank revalued its property, plant and equipment as at the end of the year-30 June 2004 by a Chartered Accountants firm.

Bangladesh Bank & Controlled Entity: Notes to the Financial Statements Year Ended 30 June 2006

Significant accounting policies -contd.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the income statement on a written down value basis except for motor vehicles, electrical equipments and furniture used in staff quarters which are depreciated on a straight line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated. The rates used for depreciation are as follows:

Bank

*	Buildings	5%
*	Mechanical equipment	10%-20%
*	Fixtures and fittings	10%
*	Motor vehicles	20%
*	Electrical installation	20%
*	Gas installation	20%

The Security Printing Corporation (Bangladesh) Ltd.

*	Buildings	2.5% - 5%
*	Mechanical/ Office equipment	20%
*	Other constructions	5% - 20%
*	Furniture	10%
*	Machinery	5% - 7%
*	Motor vehicles	20%

(m) Other receivables

Other receivables are stated at their cost less impairment losses.

(n) Distribution of profits

All remaining profit for the year is distributable to the Government of the People's Republic of Bangladesh as stipulated by article 64 of the Bangladesh Bank Order, 1972 and is recognized as a liability during the year the profits are earned.

(o) Interest bearing borrowings

Interest bearing borrowings are recognized initially at cost less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on effective interest basis.

Bangladesh Bank & Controlled Entity: Notes to the Financial Statements Year Ended 30 June 2006

Significant accounting policies -contd.

(p) Employee benefits

Contributory Provident Fund

The Bank and employees contribute to the Fund. The Bank's obligations for contributions to the above Fund are recognized as an expense in the income statement as incurred.

General Provident Fund

The employees contribute at various rates of their basic salaries to the Fund. No contributions are made by the bank for the above Fund.

The Provident Fund invest in various securities and the Bank has committed to return of 12.5 percent. Any shortfall in the return from investments is funded by the Bank by charging its income statement.

Pension Fund

The Bank actuarially valued its pension liabilities in the year 2004. The defined benefit liability arising thereof is recognized in the income statement as an expense.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the income statement.

Long term service benefits

Unutilized leave is encashable on retirement and provided for in full in the accounts for 2005. Medical allowance is payable for each employee and accounted for on a cash basis.

Gratuity scheme

On retirement the employees are entitled to 2 months of final basic salary for every year of service.

The Bank actuarially valued its Gratuity Scheme in the year 2004. The liability arising thereof is recognized in the income statement as an expense.

(q) Provisions

A provision is recognized in the balance sheet when the Bank has a legal or constructive obligation as result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Bangladesh Bank & Controlled Entity: Notes to the Financial Statements Year Ended 30 June 2006

Significant accounting policies -contd.

(r) Other payables

Other payables are stated at their cost.

(s) Revenue - Interest income

Interest income and expense are recognized in the income statement as they accrue. Interest income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(t) Net trading income

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

Fee and commission income

Commission income arises on instruments issued by the Bank, long outstanding entries of the sundry accounts, sale proceeds of sundry items, car and bus fares realized from the staff etc.

Income from currency printing & other security products

Income from printing is recognized when significant risks and rewards of ownership are passed to the buyer.

(u) Dividend income

Dividend income is recognized in the income statement on the date that the dividend is declared. Income from equity investments and other non-fixed income investments is recognized as dividend income when it accrues.

(v) Income tax

The Bank is not subject to income taxes, stamp duties, or customs duties on gold, silver, coins, currency notes, security papers and any other goods that may be specified by the Government nor on any of its income.

S***ubsidiary***

Income tax on the profit or loss for the year comprises current tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity. No provision is made for deferred tax.

Bangladesh Bank & Controlled Entity: Notes to the Financial Statements Year Ended 30 June 2006

Significant accounting policies -contd.

Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the relative dividend.

(w) Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank has provided segmental information based on its foreign and domestic currency operations.